TOPIC: APPROVAL OF FISCAL YEAR 2013-14 GENERAL FUND

BUDGET ALLOCATION

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I. SUMMARY

Earlier this month, the Governor's budget office (OSPB) shared the proposed FY 2013-14 General Fund budget mark for higher education with the Department. Based on that mark, the Department staff had the responsibility for working with the many governing boards to prepare an allocation proposal that would become part of the Governor's statewide budget request. The Governor's statewide budget proposal has now been finalized and the proposed increase for higher education operations will be made public today. The budget mark included a recommendation to increase General Fund for governing board operations by \$30 million from the FY 2012-13 level of \$513 million to \$543 million. The recommendation represents a 5.8 percent increase from FY 2012-13 and a restoration of about 15 percent of the \$193 million General Fund that had been cut from public higher education since the most recent funding "high point" of \$706 million last attained with assistance of the Recovery Act (ARRA) in FY 2009-10.

Similar to previous years, it was necessary for the Department to quickly develop and, if possible, find consensus on an allocation model for the governing boards. Although the budget mark was not yet public information, the Department worked with the governing boards through the CFOs over the last few weeks to complete an agreement for allocating the proposed increase. Today, Department staff is recommending that the Commission approve the attached FY 2013-14 General Fund allocation model agreed to by the governing boards.

Secondly, we are recommending that the Commission approve the attached letter in order to comply with a recommendation from the State Auditor's Office set forth in the College Opportunity Fund audit completed in July. The letter will be described in greater detail at the end of this action item.

II. <u>BACKGROUND</u>

Soon after the Governor's Office provided the proposed increase for higher education operations, Department staff scheduled meetings with the governing boards through the CFOs to discuss how to allocate the potential increase. Beginning with an initial CFO meeting on October 11th, Department staff received input on several "reference point" or baseline allocation models to consider at subsequent meetings. Department staff prepared those different allocation models based on factors including student FTE growth and the historical reductions taken over the prior years by the institutions to serve as logical starting points for those conversations. The CFOs met again on October 16th to consider the reference point models and to work with Department staff to build several variations from them. At the next meeting on the 17th, there was a general consensus that no additional models were needed and several votes were taken on the models

available. Over time, increasing support developed for a model that ultimately became known as "Version 2" (attached). This allocation model was eventually agreed upon and is described in greater detail below. The Department's goal, as it was last year, was to arrive at an agreement among the institutions that would result in a joint letter of support for an allocation methodology that would be signed by all the governing boards. We are pleased to report that we achieved that result.

III. STAFF ANALYSIS

With the FY 2013-14 proposed General Fund increase of \$30 million, it quickly became apparent that a different allocation approach was needed from past years where models were designed to allocate budget cuts. Reference point or baseline models included simply "reversing out" the cuts of the past years, spreading the 5.8% increase proportionally across the governing boards, and restoring cuts based on the percentage that each governing board had been reduced since the funding "high point" of \$706 million in FY 2009-10. Another baseline model restored funding based on current student FTE enrollment but assuming the "high point" level of per resident student funding (FY 2008-09). The reference point models created a spectrum where, generally speaking, research institutions benefited most from reversing past cuts and where growth institutions benefited from restoring funding based on student FTE. In the middle was a simple across the board proportionate increase where every governing board would enjoy the same 5.8% increase.

A. "Version 2" Allocation Model:

With the exception of the 5.8% proportional increase, the initial baseline models tended to create percent increases with relatively wide ranges or swings between some governing boards. Soon, combinations of the baseline models were discussed. Such models blended different elements of the baseline models to "flatten out the swings" between governing boards. One of the concepts put forth was to allocate one third (or \$10 million) to cut restoration, one third to growth (student FTE) and one third to a proportionate allocation. Through additional discussion and multiple votes the attached "Version 2" became the consensus model representing a combination of three equal parts described below:

- III. One third is based on a proportional increase calculated from each governing board's proportional share of state General Fund for FY 2012-13;
- IV. One third is based on a proportional restoration of each governing board's share of the \$193 million General Fund cut that has been experienced since FY 2008-09; and
- V. One third is based on a proportional restoration of the average funding per resident student funding level in FY 2008-09 at the most recent final enrollment levels by governing board (to acknowledge recent enrollment growth).

Blending the three components from the earlier models results in a percent increase range across the governing boards bracketed between 4.5% and 6.6%.

Similar to last year, the governing boards and CEOs believe it is beneficial to remain unified on a General Fund allocation and, to that end, the CFO's have just finalized a letter to the Commission thanking the Governor for his support and acknowledging the unanimous agreement of the governing boards to support the allocation model. The letter states in part:

We would like to thank the Governor and Lt. Governor for the recent decision to recommend a \$30 million increase in state funding for the higher education operating budget in FY 2013-14. This is the first time since FY 2008-09 that the operating funding request represents an increase and where budget cutting was not the focus of the higher education funding conversation.

This being said, we all know that there is still a long way to go. We continue to be significantly below prior state funding levels and even further behind state support for higher education in nearly every other state. However, this does not diminish our gratitude for what is a clear commitment on the part of the administration to make higher education a top priority. This increase will give each institution flexibility to invest in priorities such as investing in deferred maintenance, making even greater investments in student services, restoring reserves and financial aid.

The Lt. Governor and department staff would like to express their appreciation to the Governor's Office and to the institution governing boards for their continued spirit of partnership in coming together rapidly and cooperatively to support the attached allocation model. We believe this spirit of partnership has served the system well and will continue to do so as the JBC and General Assembly take up the FY 2013-14 budget in November and through the 2013 Legislative Session.

B. COF Audit Letter:

A second budget item for action results from a recommendation in the audit of the College Opportunity Fund (COF) that was completed by the Office of the State Auditor (OSA) last July. The audit included a finding that the Department had failed to meet the statutory requirement to annually submit a request to the General Assembly to adjust COF stipend funding to reflect the rate of inflation and eligible enrolment growth. In recent years, the department and Commission have not submitted this request because it would have been in conflict with the Governor's statewide budget priorities and budget request given recent state revenue levels.

In the recommendation section of the audit the Department agreed to submit this request and is doing so in the attached letter from the Commission. The letter and attached tables identify an additional cost of \$149 million General Fund above the FY 2013-14 request as the adjustment necessary to account for inflation and enrollment during the time that COF has been in place. If

a similar adjustment were made for need-based financial aid the added General Fund cost would be \$97 million.

We are recommending Commission approval of the letter to comply with statute and the finding and recommendation of the OSA.

IV. <u>STAFF RECOMMENDATIONS</u>

Staff recommends Commission approval of:

- VI. The attached FY 2013-14 General Fund allocation model,
- VII. The letter to comply with statute and the finding and recommendation of the OSA in the June 2012 COF Performance Audit.

STATUTORY AUTHORITY

Section 23-1-105 (8), C.R.S. (2012)

C.R.S. 23-1-105(8) The funding recommendations made by the commission for state-supported institutions of higher education and by the executive director for the divisions of the department of higher education shall be made to the governor and to the general assembly as part of the budget request for the department of higher education and shall be submitted in accordance with the budget procedures of part 3 of article 37 of title 24, C.R.S., and in conformance with section 24-75-201.1 C.R.S.